

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 9490

AMEMBASSY BELGRADE

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E.O. 11652: N/A

TAGS ECON, YO, NATO

SUBJ: REPORT ON RECENT TRENDS IN THE YUGOSLAV ECONOMY

REF: USNATO 7031 (NOTAL)

1. ON JANURARY 16, ECONOMIC COMMITTEE WILL CONSIDER REPORT PREPARED BY NATO ECONOMIC DIRECTORATE ON RECENT TRENDS IN THE YUGOSLAV ECONOMY (AC/127-WP/413). SUMMARY AND CONCLUSIONS OF THE REPORT ARE QUOTED BELOW (PARA 4) FOR BENEFIT OF EMBASSY BELGRADE.

2. MISSION BELIEVES REPORT COULD BE IMPROVED BY THREE MODIFICATIONS: (A) TO MAXIMIZE VALUE FOR THE COUNCIL, REPORT SHOULD DRAW SOME CONCLUSIONS REGARDING LIKELY ECONOMIC TRENDS OVER NEXT YEAR OR SO. (B) REPORT SHOULD MAKE SOME REFERENCE TO GROWING IMPORTANCE OF JOINT VENTURES. IF TREND IS LIKELY TO CONTINUE, THIS COULD PERHAPS SERVE AS MODEL FOR OTHER EASTERN EUROPEAN COUNTRIES. (C) REPORT SHOULD MENTION EVOLUTION OF WORKERS SELF-MANAGEMENT. SUCCESS OR FAILURE OF THIS PHENOMENON COULD ALSO INFLUENCE DEVELOPMENTS IN OTHER EASTERN EUROPEAN COUNTRIES.

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3. ACTION REQUESTED. WASHINGTON AND EMBASSY BELGRADE COMMENTS BY JANUARY 15.

4. BEGIN TEXT:

SUMMARY AND CONCLUSIONS

YUGOSLAVIA HAS NOT YET MANAGED TO ACHIEVE SMOOTH ECONOMIC GROWTH. THE AUSTERITY MEASURES INTRODUCED IN 1972 AND EARLY 1973 SUCCEEDED, LAST YEAR, IN CURBING THE RISE IN DOMESTIC DEMAND - WHICH WAS ONE OF THE OBJECTIVES - BUT AT THE SAME TIME THEY LED TO A FALL-OFF IN THE GROWTH RATE (INDUSTRIAL PRODUCTION ROSE BY 6PERCENT IN 1973, THE LOWEST FIGURE SINCE 1967), WITHOUT EASING THE INFLATIONARY PRESSURES.

2. THERE HAS BEEN A FURTHER SETBACK IN THE NEVER-ENDING FIGHT AGAINST INFLATION; PRICES ROSE BY AN UNPRECEDENTED 20PERCENT IN 1973 AND THE CORRESPONDING FIGURE FOR 1974 COULD WELL BE 25PERCENT. THIS COULD BE A DISASTROUS TREND FOR A COUNTRY WHICH IS STRUGGLING TO FOSTER ITS ECONOMIC DEVELOPMENT. IT IS CERTAIN, IN ANY CASE, TO ACCENTUATE THE EXISTING DIFFERENCES BETWEEN THE DEVELOPED AND LESS DEVELOPED REPUBLICS AND THIS, IN TURN, COULD REPRESENT A THREAT TO THE COHESION OF THE YUGOSLAV FEDERAL SYSTEM.

3. THERE HAS BEEN NO CHANGE IN THE YUGOSLAV LEADERS' HABIT OF SWITCHING TOO QUICKLY FROM AUSTERITY MEASURES TO MEASURES DESIGNED TO BOOST THE ECONOMY. YUGOSLAVIA STILL PURSUES A STOP-GO POLICY. AT THE END OF 1973, THE GOVERNMENT ONCE AGAIN EMBARKED ON A POLICY OF EXPANSION WHICH LED TO THE ECONOMIC REVIVAL NOTED DURING THE FIRST HALF OF 1974. THESE MEASURES WERE PROBABLY PREMATURE AND MAY WELL MAKE THE EXISTING TENSIONS WORSE. YUGOSLAVIA'S ECONOMIC GROWTH, WHICH DEPENDS IN PART ON EXPORTS, IS ALSO LIKELY TO BE HIT IN THE COMING MONTHS BY THE CONTRACTION OF INTERNATIONAL TRADE.

4. QUITE APART FROM THE SHORT-TERM ECONOMIC FACTORS, THE COUNTRY'S ECONOMIC DIFFICULTIES ARE DUE TO STRUCTURAL IMBALANCES WHICH HAVE STILL NOT BEEN CORRECTED. IN THIS CONNECTION, IT SEEMS THAT PAST MISTAKES ARE BEING REPEATED, BUT THEY WILL HAVE MORE SERIOUS CONSEQUENCES IN THE PRESENT INTERNATIONAL ECONOMIC CONTEXT.

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5. THE PRIVATE SECTOR, ALTHOUGH IT ACCOUNTS FOR TWO-THIRDS OF AGRICULTURAL OUTPUT, HAS BEEN FALLING BEHIND FOR A QUARTER OF A CENTURY AND THIS SITUATION HAS AN ADVERSE EFFECT ON THE PERFORMANCE OF AGRICULTURE. ALTHOUGH THE GOVERNMENT HAS BECOME AWARE OF THE NEED TO IMPROVE THE PRODUCTIVITY OF THE PRIVATE LAND-HOLDINGS, REALISING AS IT DOES THAT THE MORE DYNAMIC SOCIALIST SECTOR IS HAMPERED BY THE SMALL AREA CONTROLLED (16PERCENT OF THE CULTIVATED LAND), IT REMAINS RELUCTANT FOR IDEOLOGICAL REASONS TO GIVE DIRECT LARGE-SCALE AID TO PRIVATE OWNERS AND TO REVISE CERTAIN CONSTITUTIONAL PROVISIONS.

6. INDUSTRIAL GROWTH HAS, IN ITSELF, BEEN A DESTABILISING FACTOR. THE DEVELOPMENT OF CERTAIN PROCESSING INDUSTRIES HAS NOT GONE HAND-IN-HAND WITH ADEQUATE EXPANSION OF THE INDUSTRIES PRODUCING BASIC ITEMS AND INTERMEDIATE PRODUCTS. IT HAS THEREFORE BEEN NECESSARY TO IMPORT LARGE QUANTITIES OF THESE GOODS, A PARTICULARLY SERIOUS DEVELOPMENT IN VIEW OF THE RISE IN WORLD PRICES. A FURTHER DESTABILISING FACTOR IS THE WEAKNESS OF THE MECHANICAL ENGINEERING BRANCH, WHICH WAS THE MAIN CAUSE OF THE 1973 TRADE DEFICIT. FOREIGN INVESTMENTS HAVE SO FAR DONE VERY LITTLE TO REDRESS THE BALANCE. SUCH INVESTMENT HAS BEEN AT A VERY LOW LEVEL (THE TOTAL FOREIGN CONTRBUTION TO THE ECONOMY WAS \$145 MILLION AT 31ST JANUARY, 1974 AND, IN THE MAIN, HAS BY-PASSED THE INDUSTRIES WITH THE BIGGEST DEFICITS.

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7. THE FOREIGN TRADE FIGURES ARE A CAUSE FOR CONCERN: IN 1973, THE TRADE DEFICIT WAS \$1.6 MILLIARD, MAINLY BECAUSE PURCHASES OUTSTRIPPED SALES IN TRADE WITH THE WEST. THIS FIGURE HAS ALREADY BEEN REACHED IN THE FIRST HALF OF 1974 AND ILLUSTRATES THE STRAINS TO WHICH THE ECONOMY IS NOW SUBJECT.

8. THE BIG INCREASE IN EXPORTS TO THE EAST EUROPEAN COUNTRIES RECORDED DURING THE FIRST HALF OF THE YEAR (A RISE OF 70 PERCENT COMPARED WITH THE FIRST HALF OF 1973 AS AGAINST A RISE OF 53PERCENT FOR ALL EXPORTS), UNLESS IT IS MERELY A PASSING PHENOMENON, COULD BE THE FIRST SIGNS OF A CHANGE IN YUGOSLAV TRADE POLICY, WHICH HAS HITHERTO SOUGHT TO AVOID TOO GREAT A DEPENDENCE ON THESE COUNTRIES. OBVIOUSLY, THE YUGOSLAVS' TASK IS NOT MADE EASIER BY A SITUATION IN WHICH THEY ARE HAVING TO PAY MORE FOR THE GOODS THEY BUY FROM THE WEST AND ARE FINDING IT MORE

AND MORE DIFFICULT TO SELL THEIR EXPORTS, PARTICULARLY
AGRICULTURAL PRODUCE, TO THE WEST.

9. IN 1973, AS IN 1972, THERE WERE SUBSTANTIAL INVISIBLE
EARNINGS FROM THE TOURIST TRADE AND REMITTANCE FROM YUGOSLAVS
WORKING ABROAD. THESE INFLOWS MADE IT POSSIBLE NOT ONLY TO
OFFSET THE TRADE DEFICIT BUT ALSO PROVIDED A CONFORTABLE
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SURPLUS ON CURRENT ACCOUNT (\$327 MILLION IN 1973). BECAUSE OF
THE UNFAVOURABLE ECONOMIC SITUATIO WESTERN EUROPE AND THE
RESTRICTIONS ON IMMIGRATION INTRODUCED BY MOST OF THE HOST
COUNTRIES, THESE INVISIBLE EARNINGS COULD WELL GO DOWN IN 1974
AND NO LONGER OFFSET THE TRADE DEFICIT. SOME YUGOSLAV
ESTIMATES FORESEE A DEFICIT OF \$700 MILLION ON CURRENT ACCOUNT.

10. THIS MEANS THAT THE COUNTRY COULD BECOME DEPENDENT
ON MEDIUM AND LONG-ERM LOANS TO REDRESS THE BALANCE OF
PAYMENTS. IN VIEW OF CURRENT ECONOMIC UNCERTAINTIES, THERE IS
SOME QUESTION WHETHER THE WESTERN COUNTRIES, THE TRADITIONAL
PROVIDERS OF FUNDS, WILL BE ABLE TO GIVE SUFFICIENT HELP TO
ALLOW YUGOSLAVIA TO ABSORB A BIG DEFICIT ON CURRENT ACCOUNT
AND THE INCREASED COST OF SERVICING THE DEBT (OVER THE LAST
FEW YEARS MUCH USE HAS BEEN MADE OF LONG-TERM CAPITAL TO
PROMOTE DEVELOPMENT), WHICH AMOUNTED TO 23PERCENT OF THE
VALUE OF EXPORTS IN 1972.

11. FOR THE TIME BEING, AT LEAST, THE POLICY OF EVER
CLOSER ASSOCIATION WITH NON-MARXIST ECONOMIES AND INTEGRATION
INTO THE PATTERN OF WORLD TRADE DOES NOT APPEAR TO HAVE BEEN
REALLY CALLED IN QUESTION. NONETHELESS, THE SUCCESS OF THE
YUGOSLAV EXPERIMENT, FALLING AS IT DOES MID-WAY BETWEEN
COMMUNIST STATE PLANNING AND NEO-LIBERALISM, CANNOT YET BE
TAKEN FOR GRANTED. THE COUNTRY IS STILL HEAVILY DEPENDENT ON
THE OUTSIDE WORKD, WHETHER IN THE FORM OF ECONOMIC ASSISTANCE,
MEDIUM AND LONG-TERM LOANS OR REMITTANCES FROM YUGOSLAV
WORKERS ABROAD. THIS MAKES IT PARTICULARLY VULNERABLE TO THE
SHOCK WAVES SET UP BY THE SLACKENING OF ECONOMIC GROWTH IN
THE WEST AND THE WORSENING OF INFLATIONARY PRESSURES ALMOST
EVERWHERE. WERE SUCH A STITUATION TO LAST, THERE MIGHT BE
A TEMPATATION FOR THE YUGOSLAV LEADERSHIP TO REVERT TO MORE
AUTHORITARIAN AND CENTRALISED FORMS OF ECONOMIC MANAGEMENT, OR
EVEN TO SUCCOMB TO OPPORTUNITIES FOR MORE ACTIVE PARTICIPATION
IN COMECON. END TEXT. BRUCE

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